



Kopanong Local Municipality  
Financial statements  
for the year ended 30 June 2013

# Kopanong Local Municipality

Financial Statements for the year ended 30 June 2013

## General Information

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<b>Nature of business and principal activities</b>	Providing municipal services as set out in the Constitution
<b>Registered office</b>	20 Louw Street Trompsburg 9913
<b>Postal address</b>	Private Bag X23 Trompsburg 9913
<b>Bankers</b>	First National Bank
<b>Auditors</b>	Auditor General of South Africa Registered Auditors
<b>Relevant legislation</b>	Basic Conditions of Employment Act (Act no. 75 of 1997) Division of Revenue Act Electricity Act (Act no. 41 of 1987) Employment Equity Act (Act. no. 55 of 1998) Housing Act (Act no. 107 of 1997) Income Tax Act (Act no 58 of 1962) Municipal Finance Management Act (Act no. 56 of 2003) Municipal Planning and Performance Management Regulations Municipal Property Rates Act (Act no. 6 of 2004) Municipal Structure Act (Act no. 117 of 1998) Municipal System Act (Act no. 32 of 2000) Skills Development Levies Act (Act no. 9 of 1999) South African Local Bargaining Council Regulations Supply Chain Management Regulation of 2005 Unemployment Insurance Act (Act no. 30 of 1996) Value-Added Tax Act (Act no. 89 of 1991) Water Services Act (Act no. 108 of 1997)

# Kopanong Local Municipality

Financial Statements for the year ended 30 June 2013

## Index

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The reports and statements set out below comprise the financial statements presented to the Council:

<b>Index</b>	<b>Page</b>
Accounting officer's Responsibilities and Approval	3
Statement of Financial Position	4
Statement of Changes in Net Assets	7
Statement of Financial Performance	5 - 6
Cash Flow Statement	8
Statement of Comparison of Budget and Actual Amounts	9
Appropriation Statement	10 - 9
Accounting Policies	10 - 23
Notes to the Financial Statements	24 - 48
Appendixes:	
Appendix A: Schedule of External loans	49

# Kopanong Local Municipality

Financial Statements for the year ended 30 June 2013

## Accounting officer's Responsibilities and Approval

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The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the financial statements and was given unrestricted access to all financial records and related data.

The financial statements have been prepared in accordance with Statements of Generally Accepted Municipal Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that she is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The financial statements set out on pages 4 to 48, which have been prepared on the going concern basis, were approved by the accounting officer on 30 August 2013.

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**Mrs. L.Y. Moletsane**

# Kopanong Local Municipality

Financial Statements for the year ended 30 June 2013

## Statement of Financial Position as at 30 June 2013

Figures in Rand	Note(s)	2013	2012 Restated
<b>Assets</b>			
<b>Current Assets</b>			
Inventories	2	360 068	188 866
Other receivables from exchange transactions	4	230 669	6 408 591
Receivables from non-exchange transactions	5	21 408 304	22 136 304
Consumer debtors	3	19 939 637	7 099 983
Cash and cash equivalents	6	1 053 476	3 325 628
		<b>42 992 154</b>	<b>39 159 372</b>
<b>Non-Current Assets</b>			
Property, plant and equipment	7	1 254 613 124	1 295 035 805
<b>Total Assets</b>		<b>1 297 605 278</b>	<b>1 334 195 177</b>
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Long-term liabilities	11	232 201	258 655
Finance lease obligation	12	-	397 470
Trade and other payables	10	103 598 558	89 432 891
VAT payable	14	1 321 773	3 218 359
Consumer deposits	8	2 139 832	1 359 627
Unspent conditional grants and receipts	13	361 117	1 937 542
Bank overdraft	6	-	5 884 094
		<b>107 653 481</b>	<b>102 488 638</b>
<b>Non-Current Liabilities</b>			
Long-term liabilities	11	1 841 384	2 073 585
Retirement benefit obligation	41	20 173 000	16 883 000
Provisions	9	25 071 666	27 826 426
		<b>47 086 050</b>	<b>46 783 011</b>
<b>Total Liabilities</b>		<b>154 739 531</b>	<b>149 271 649</b>
<b>Net Assets</b>		<b>1 142 865 747</b>	<b>1 184 923 528</b>
<b>Net Assets</b>			
Accumulated surplus		1 142 865 747	1 184 923 528

# Kopanong Local Municipality

Financial Statements for the year ended 30 June 2013

## Statement of Financial Performance

Figures in Rand	Note(s)	2013	2012 Restated
<b>Revenue</b>			
Sale of goods		1 888 403	237 947
Rendering of services		68 141 248	65 407 883
Rental of facilities and equipment		283 243	744 794
Property rates		9 856 534	7 538 797
Government grants & subsidies		141 352 775	111 411 693
Fines		244 676	87 610
	15	<b>221 766 879</b>	<b>185 428 724</b>
<b>Other income</b>			
Rental income		895 762	321 901
Sundry Income		454 221	108 861
Interest received	16	6 512 616	5 645 227
Fair value adjustments		3 697 760	-
		<b>11 560 359</b>	<b>6 075 989</b>
<b>Operating expenses</b>			
Administration and management fees		(5 062 668)	(601 776)
Advertising		(198 007)	(457 862)
Assets expensed		(374 795)	-
Auditors remuneration		(4 005 828)	(3 809 374)
Bad debts		(13 313 175)	(72 909 088)
Bank charges		(397 400)	(311 476)
Bulk purchases		(56 266 799)	(51 391 006)
Chemicals		(944 556)	(2 453 017)
Cleaning		(54 718)	(48 742)
Commission paid		(1 530 507)	(586 884)
Community development and training		(428 866)	-
Consumables		(120)	(6 522)
Depreciation, amortisation and impairments		(75 939 230)	(63 119 548)
Employee costs		(84 542 422)	(74 404 571)
Entertainment		(116 237)	(151 496)
Insurance		(504 356)	(662 188)
Lease rentals on operating lease		(686 991)	(203 924)
Legal expenses		(349 494)	(761 870)
Other expenses		(10 939 308)	(8 590 242)
Petrol and oil		(1 579 154)	(1 266 592)
Postage		(10 041)	(43 669)
Printing and stationery		(425 152)	(442 994)
Protective clothing		(100 478)	(204 474)
Repairs and maintenance		(4 920 231)	(3 850 248)
Royalties and license fees		(83 389)	(81 663)
Software expenses		(98 874)	(195 957)
Subscriptions		(458 850)	(356 436)
Telephone and fax		(1 709 430)	(1 819 090)
Training		(68 234)	(636 383)
Transport and freight		(143 367)	(34 096)
Travel - local		(1 546 325)	(1 073 232)
Utilities		(7 323 977)	(6 213 974)
		<b>(274 122 979)</b>	<b>(296 688 394)</b>
<b>Operating deficit</b>		<b>(40 795 741)</b>	<b>(105 183 681)</b>

## Kopanong Local Municipality

Financial Statements for the year ended 30 June 2013

### Statement of Financial Performance

Figures in Rand	Note(s)	2013	2012
Finance costs	17	(5 201 854)	(6 620 950)
Fair value adjustments		-	(1 223 416)
		<b>(5 201 854)</b>	<b>(7 844 366)</b>
<b>Deficit for the year</b>		<b>(45 997 595)</b>	<b>(113 028 047)</b>

# Kopanong Local Municipality

Financial Statements for the year ended 30 June 2013

## Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Opening balance as previously reported	665 450 564	665 450 564
Adjustments		
Correction of errors	632 501 011	632 501 011
<b>Balance at 01 July 2011 as restated</b>	<b>1 297 951 575</b>	<b>1 297 951 575</b>
Changes in net assets		
Surplus for the year	(113 028 047)	(113 028 047)
Total changes	(113 028 047)	(113 028 047)
Opening balance as previously reported	599 694 494	599 694 494
Adjustments		
Change in accounting policy	585 229 036	585 229 036
<b>Balance at 01 July 2012 as restated</b>	<b>1 184 923 530</b>	<b>1 184 923 530</b>
Changes in net assets		
Dabtors impairment adjustment	(64 515 305)	(64 515 305)
Centlec loss	3 308 056	3 308 056
Assets adjustments	65 172 190	65 172 190
Write-off unknown debtors	(25 129)	(25 129)
Net income (losses) recognised directly in net assets	3 939 812	3 939 812
Surplus for the year	(45 997 595)	(45 997 595)
Total recognised income and expenses for the year	(42 057 783)	(42 057 783)
Total changes	(42 057 783)	(42 057 783)
<b>Balance at 30 June 2013</b>	<b>1 142 865 747</b>	<b>1 142 865 747</b>
Note(s)		



# Kopanong Local Municipality

Financial Statements for the year ended 30 June 2013

## Cash Flow Statement

Figures in Rand	Note(s)	2013	2012
<b>Cash flows from operating activities</b>			
<b>Receipts</b>			
Sale of goods and services		24 880 105	185 828 489
Grants		131 302 548	-
Interest income		6 512 616	5 645 227
		<u>162 695 269</u>	<u>191 473 716</u>
<b>Payments</b>			
Employee costs		(84 542 422)	(70 944 822)
Suppliers		(37 071 586)	(63 508 216)
Finance costs		(5 201 854)	(6 620 950)
Other cash item		(158 337)	(12 049 184)
		<u>(126 974 199)</u>	<u>(153 123 172)</u>
<b>Net cash flows from operating activities</b>	19	<b>35 721 070</b>	<b>38 350 544</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	7	(35 675 551)	(37 410 215)
Proceeds from sale of property, plant and equipment	7	524 788	-
Proceeds from sale of financial assets		-	(1 223 416)
<b>Net cash flows from investing activities</b>		<b>(35 150 763)</b>	<b>(38 633 631)</b>
<b>Cash flows from financing activities</b>			
Repayment of long-term liabilities		3 439 105	-
Finance lease payments		(397 470)	-
<b>Net cash flows from financing activities</b>		<b>3 041 635</b>	<b>-</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>3 611 942</b>	<b>(283 087)</b>
Cash and cash equivalents at the beginning of the year		(2 558 466)	(2 275 379)
<b>Cash and cash equivalents at the end of the year</b>	6	<b>1 053 476</b>	<b>(2 558 466)</b>

# Kopanong Local Municipality

Financial Statements for the year ended 30 June 2013

## Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
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Figures in Rand

### Statement of Financial Performance

#### Revenue

##### Revenue from exchange transactions

Sale of goods	2 461 359	-	2 461 359	1 888 403	(572 956)	
Service charges	69 205 083	-	69 205 083	68 141 248	(1 063 835)	39
Rental of facilities and equipment	1 019 999	-	1 019 999	283 243	(736 756)	
Membership fees	426	-	426	-	(426)	
Rental income	117 688	(1)	117 687	895 762	778 075	
Sundry income	160 086	(1)	160 085	454 221	294 136	
Interest	4 168 765	-	4 168 765	6 512 616	2 343 851	39
<b>Total revenue from exchange transactions</b>	<b>77 133 406</b>	<b>(2)</b>	<b>77 133 404</b>	<b>78 175 493</b>	<b>1 042 089</b>	

##### Revenue from non-exchange transactions

##### Taxation revenue

Property rates	13 621 196	-	13 621 196	9 856 534	(3 764 662)	39
Government grants & subsidies	81 683 685	2 800 000	84 483 685	141 352 775	56 869 090	39

##### Transfer revenue

Fines	123 282	-	123 282	244 676	121 394	
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<b>Total revenue from non-exchange transactions</b>	<b>95 428 163</b>	<b>2 800 000</b>	<b>98 228 163</b>	<b>151 453 985</b>	<b>53 225 822</b>	
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<b>Total revenue</b>	<b>172 561 569</b>	<b>2 799 998</b>	<b>175 361 567</b>	<b>229 629 478</b>	<b>54 267 911</b>	
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#### Expenditure

Personnel	(69 122 672)	1 450 685	(67 671 987)	(81 047 888)	(13 375 901)	39
Remuneration of councillors	(4 510 000)	1 170 000	(3 340 000)	(3 494 534)	(154 534)	
Administration	(4 411 542)	500 000	(3 911 542)	(5 062 668)	(1 151 126)	39
Depreciation and amortisation	(7 311 885)	(35 000 000)	(42 311 885)	(75 939 230)	(33 627 345)	39
Finance costs	(359 009)	(70 000)	(429 009)	(5 201 854)	(4 772 845)	39
Debt impairment	(10 392 512)	(7 558 804)	(17 951 316)	(13 313 175)	4 638 141	39
Repairs and maintenance	(8 410 109)	36 736	(8 373 373)	(4 920 231)	3 453 142	39
Bulk purchases	(48 592 966)	(1 800 000)	(50 392 966)	(56 266 799)	(5 873 833)	39
General Expenses	(26 490 487)	3 305 388	(23 185 099)	(34 078 454)	(10 893 355)	39

<b>Total expenditure</b>	<b>(179 601 182)</b>	<b>(37 965 995)</b>	<b>(217 567 177)</b>	<b>(279 324 833)</b>	<b>(61 757 656)</b>	
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<b>Operating deficit</b>	<b>(7 039 613)</b>	<b>(35 165 997)</b>	<b>(42 205 610)</b>	<b>(49 695 355)</b>	<b>(7 489 745)</b>	
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Fair value adjustments	(265 000)	165 000	(100 000)	3 697 760	3 797 760	
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<b>Deficit before taxation</b>	<b>(7 304 613)</b>	<b>(35 000 997)</b>	<b>(42 305 610)</b>	<b>(45 997 595)</b>	<b>(3 691 985)</b>	
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<b>Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement</b>	<b>(7 304 613)</b>	<b>(35 000 997)</b>	<b>(42 305 610)</b>	<b>(45 997 595)</b>	<b>(3 691 985)</b>	
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# Kopanong Local Municipality

Financial Statements for the year ended 30 June 2013

## Accounting Policies

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### 1. Presentation of Financial Statements

The financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

These financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention unless specified otherwise. They are presented in South African Rand.

The standards are summarised as follows:

GRAP 1	Presentation of Financial Statements
GRAP 2	Cash Flow Statements
GRAP 3	Accounting Policies, Changes in Accounting Estimates and Errors
GRAP 4	The Effects of changes in Foreign Exchange Rates
GRAP 5	Borrowing Costs
GRAP 6	Consolidated and Separate Financial Statements
GRAP 7	Investments in Associate
GRAP 8	Interests in Joint Ventures
GRAP 9	Revenue from Exchange Transactions
GRAP 10	Financial Reporting in Hyperinflationary Economics
GRAP 11	Construction Contracts
GRAP 12	Inventories
GRAP 13	Leases
GRAP 14	Events after the reporting date
GRAP 16	Investment Property
GRAP 17	Property, Plant and Equipment (PPE)
GRAP 19	Provisions, Contingent Liabilities and Contingent Assets
GRAP 23	Revenue from Non-exchange Transactions
GRAP 24	Presentation of Budget Information
GRAP 26	Impairment of Cash Generating Assets
GRAP 101	Agricultural
GRAP 100	Non-Current Assets Held for Sale and Discontinued Operations
GRAP 102	Intangibles
GRAP 103	Heritage assets
GRAP 21	Impairment of non-cash generating assets
GAMAP 9	Revenue from Government Grants
IGRAP 1	Applying the Probability Test on Initial Recognition of Exchange Revenue
IGRAP 2	Changes in existing decommissioning, restoration and similar liabilities
IPSA 20	Related Party Disclosures
IFRS 7	Financial Instruments: Disclosure
IAS 19	Employee Benefits
IAS 32	Financial Instruments: Presentation
IAS 36	Impairment of Assets
IAS 39	Financial Instruments: Recognition and Measurement

The following GRAP standards have been issued but are not yet effective and have not been early adopted by the municipality:

GRAP 18	Segment Reporting
GRAP 20	Related Party Disclosure
GRAP 25	Employee Benefits
GRAP 104	Financial Instruments
GRAP 105	Transfer of Functions between entities under Common Control
GRAP 106	Transfer of Functions between Entities Not under Common Control
GRAP 107	Mergers

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention unless specified otherwise. They are presented in South African Rand.

# Kopanong Local Municipality

Financial Statements for the year ended 30 June 2013

## Accounting Policies

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### 1.1 Significant judgements and sources of estimation uncertainty

In preparing the financial statements, management is required to make estimates and assumptions that affect the amounts represented in the financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the financial statements. Significant judgements include:

#### Trade receivables

The municipality assesses its trade receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the surplus makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

#### Allowance for slow moving, damaged and obsolete stock

An allowance for stock to write stock down to the lower of cost or net realisable value. Management has made estimates of the selling price and direct cost to sell on certain inventory items. The write down is included in the operating surplus note.

#### Fair value estimation

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the municipality for similar financial instruments.

#### Impairment testing

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. An assessment of whether there is an indication of possible impairment is done at each reporting date. Where the carrying amount of an asset is greater than the estimated recoverable amount (or recoverable service amount), it is written down immediately to its recoverable amount (or recoverable service amount) and an impairment loss is charged to the statement of financial performance. The municipality does not hold any assets with the primary objective to generate a commercial return. Therefore, the municipality has assessed all assets as being non cash generating and has assessed impairment based on GRAP 21 Impairment of non cash generating assets.

#### Provisions

Provisions were raised and management determined an estimate based on the information available.

#### Useful lives of waste and water network and other assets

The municipality's management determines the estimated useful lives and related depreciation charges for the waste water and water networks. This estimate is based on industry norm. Management will increase the depreciation charge where useful lives are less than previously estimated useful lives.

#### Effective interest rate

The municipality used the prime interest rate to discount future cash flows.

#### Allowance for doubtful debts

On debtors an impairment loss is recognised in surplus and deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the debtors carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition.

### 1.2 Inventories

Inventories are initially measured at cost except where inventories are acquired through a non-exchange transaction, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value.

Inventories are measured at the lower of cost and current replacement cost where they are held for;

- distribution at no charge or for a nominal charge; or

# Kopanong Local Municipality

Financial Statements for the year ended 30 June 2013

## Accounting Policies

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### 1.2 Inventories (continued)

- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Current replacement cost is the cost the municipality incurs to acquire the asset on the reporting date.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

The cost of inventories is assigned using the first-in, first-out (FIFO) formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

### 1.3 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, its deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

# Kopanong Local Municipality

Financial Statements for the year ended 30 June 2013

## Accounting Policies

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### 1.3 Property, plant and equipment (continued)

Major spare parts and stand-by equipment which are expected to be used for more than one period are included in property, plant and equipment. In addition, spare parts and stand-by equipment which can only be used in connection with an item of property, plant and equipment are accounted for as property, plant and equipment.

Any increase in an asset's carrying amount, as a result of a revaluation, is credited directly to a revaluation surplus. The increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same asset previously recognised in surplus or deficit.

Property, plant and equipment is carried at revalued amount, being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are made with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

Any increase in an asset's carrying amount, as a result of a revaluation, is credited directly to a revaluation surplus. The increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same asset previously recognised in surplus or deficit.

Any decrease in an asset's carrying amount, as a result of a revaluation, is recognised in surplus or deficit in the current period. The decrease is debited in revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Average useful life
Land	None
Buildings	5 - 100 years
Furniture and fixtures	1 - 10 years
Motor vehicles	7 - 20 years
Office equipment	3 - 5 years
IT equipment	5 years
Computer software	3 - 5 years
Electricity	3 - 100 years
Roads	5 - 100 years
Water and sanitation	10 - 100 years

# Kopanong Local Municipality

Financial Statements for the year ended 30 June 2013

## Accounting Policies

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### 1.4 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Where investment property is acquired through a non-exchange transaction, its cost is its fair value as at the date of acquisition.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

#### Fair value

Subsequent to initial measurement investment property is measured at fair value.

The fair value of investment property reflects market conditions at the reporting date.

A gain or loss arising from a change in fair value is included in net surplus or deficit for the period in which it arises.

If the entity determines that the fair value of an investment property under construction is not reliably determinable but expects the fair value of the property to be reliably measurable when construction is complete, it measures that investment property under construction at cost until either its fair value becomes reliably determinable or construction is completed (whichever is earlier). If the entity determines that the fair value of an investment property (other than an investment property under construction) is not reliably determinable on a continuing basis, the entity measure that investment property using the cost model (as per the accounting policy on Property, plant and equipment). The residual value of the investment property is then assumed to be zero. The entity apply the cost model (as per the accounting policy on Property, plant and equipment) until disposal of the investment property.

Once the entity becomes able to measure reliably the fair value of an investment property under construction that has previously been measured at cost, it measures that property at its fair value. Once construction of that property is complete, it is presumed that fair value can be measured reliably. If this is not the case, the property is accounted for using the cost model in accordance with the accounting policy on Property, plant and equipment.

### 1.5 Financial instruments

### 1.6 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the entity assesses the classification of each element separately.

#### Finance leases - lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the future minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

Subsequent to initial recognition, the leased assets are accounted for in accordance with the stated accounting policies applicable to property, plant, equipment or intangibles. The lease liability is reduced by the lease payments, which are allocated between finance cost and capital repayment using the effective interest rate method. The accounting policies relating to derecognition of financial instrument are applied to lease payables. The lease asset is depreciated over the shorter of the asset's useful or the lease term.

# Kopanong Local Municipality

Financial Statements for the year ended 30 June 2013

## Accounting Policies

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### 1.6 Leases (continued)

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate on the remaining balance of the liability.

Any contingent rents are expensed in the period in which they are incurred.

#### Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

### 1.7 Employee benefits

#### Short-term employee benefits

The cost of short-term employee benefits are recognised in the period in which the service is rendered and are not discounted.

The expected cost of leave, bonus and long service bonus payments are recognised as an expense when there is a legal or constructive obligation to make such payments as a result of past performance.



# Kopanong Local Municipality

Financial Statements for the year ended 30 June 2013

## Accounting Policies

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### 1.7 Employee benefits (continued)

#### Defined contribution plans

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due.

Payments made to industry-managed (or state plans) retirement benefit schemes are dealt with as defined contribution plans where the entity's obligation under the scheme is equivalent to those arising in a defined contribution retirement benefit plan.

#### Defined benefit plans

For defined benefit plans the cost of providing the benefits is determined using the projected credit method.

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan.

Consideration is given to any event that could impact the funds up to end of the reporting period where the interim valuation is performed at an earlier date.

Past service costs are recognised immediately to the extent that the benefits are already vested, and are otherwise amortised on a straight line basis over the average period until the amended benefits become vested.

To the extent that, at the beginning of the financial period, any cumulative unrecognised actuarial gain or loss exceeds ten percent of the greater of the present value of the projected benefit obligation and the fair value of the plan assets (the corridor), that portion is recognised in surplus or deficit over the expected average remaining service lives of participating employees. Actuarial gains or losses within the corridor are not recognised.

Gains or losses on the curtailment or settlement of a defined benefit plan is recognised when the entity is demonstrably committed to curtailment or settlement.

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In surplus or deficit, the expense relating to a defined benefit plan is presented as the net of the amount recognised for a reimbursement.

The amount recognised in the statement of financial position represents the present value of the defined benefit obligation as adjusted for unrecognised actuarial gains and losses and unrecognised past service costs, and reduces by the fair value of plan assets.

Any asset is limited to unrecognised actuarial losses and past service costs, plus the present value of available refunds and reduction in future contributions to the plan.

#### Other post retirement obligations

The entity provides post-retirement health care benefits, housing subsidies and gratuities upon retirement to some retirees.

The entitlement to post-retirement health care benefits is based on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment. Independent qualified actuaries carry out valuations of these obligations. The entity also provides a gratuity and housing subsidy on retirement to certain employees. An annual charge to income is made to cover both these liabilities.

### 1.8 Provisions and contingencies

Provisions are recognised when:

- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

# Kopanong Local Municipality

Financial Statements for the year ended 30 June 2013

## Accounting Policies

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### 1.8 Provisions and contingencies (continued)

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

Provisions are not recognised for future operating deficits.

If an entity has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

Contingent assets and contingent liabilities are not recognised.

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

The municipality recognises a provision for financial guarantees and loan commitments when it is probable that an outflow of resources embodying economic benefits and service potential will be required to settle the obligation and a reliable estimate of the obligation can be made.

Determining whether an outflow of resources is probable in relation to financial guarantees requires judgement. Indications that an outflow of resources may be probable are:

- financial difficulty of the debtor;
- defaults or delinquencies in interest and capital repayments by the debtor;
- breaches of the terms of the debt instrument that result in it being payable earlier than the agreed term and the ability of the debtor to settle its obligation on the amended terms; and
- a decline in prevailing economic circumstances (e.g. high interest rates, inflation and unemployment) that impact on the ability of entities to repay their obligations.

Where a fee is received by the municipality for issuing a financial guarantee and/or where a fee is charged on loan commitments, it is considered in determining the best estimate of the amount required to settle the obligation at reporting date. Where a fee is charged and the municipality considers that an outflow of economic resources is probable, an municipality recognises the obligation at the higher of:

- the amount determined using in the Standard of GRAP on Provisions, Contingent Liabilities and Contingent Assets; and
- the amount of the fee initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the Standard of GRAP on Revenue from Exchange Transactions.

### 1.9 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

#### Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

# Kopanong Local Municipality

Financial Statements for the year ended 30 June 2013

## Accounting Policies

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### 1.9 Revenue from exchange transactions (continued)

#### Sale of goods

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:

- the municipality has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

#### Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

#### Interest

Revenue arising from the use by others of entity assets yielding interest is recognised when:

- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, and
- The amount of the revenue can be measured reliably.

Interest is recognised, in surplus or deficit, using the effective interest rate method.

# Kopanong Local Municipality

Financial Statements for the year ended 30 June 2013

## Accounting Policies

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### 1.10 Revenue from non-exchange transactions

Non-exchange transactions are defined as transactions where the entity receives value from another entity without directly giving approximately equal value in exchange.

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

#### Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

#### Rates, including collection charges and penalties interest

Revenue from rates, including collection charges and penalty interest, is recognised when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the amount of the revenue can be measured reliably; and
- there has been compliance with the relevant legal requirements.

Changes to property values during a reporting period are valued by a suitably qualified valuator and adjustments are made to rates revenue, based on a time proportion basis. Adjustments to rates revenue already recognised are processed or additional rates revenue is recognised.

#### Fines

Revenue from the issuing of fines is recognised when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the amount of the revenue can be measured reliably.

#### Government grants

Government grants are recognised as revenue when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality,
- the amount of the revenue can be measured reliably, and
- to the extent that there has been compliance with any restrictions associated with the grant.

The municipality assesses the degree of certainty attached to the flow of future economic benefits or service potential on the basis of the available evidence. Certain grants payable by one level of government to another are subject to the availability of funds. Revenue from these grants is only recognised when it is probable that the economic benefits or service potential associated with the transaction will flow to the entity. An announcement at the beginning of a financial year that grants may be available for qualifying entities in accordance with an agreed programme may not be sufficient evidence of the probability of the flow. Revenue is then only recognised once evidence of the probability of the flow becomes available.

Restrictions on government grants may result in such revenue being recognised on a time proportion basis. Where there is no restriction on the period, such revenue is recognised on receipt or when the Act becomes effective, whichever is earlier.

When government remit grants on a re-imbursement basis, revenue is recognised when the qualifying expense has been incurred and to the extent that any other restrictions have been complied with.

#### Other grants and donations

Other grants and donations are recognised as revenue when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the amount of the revenue can be measured reliably; and
- to the extent that there has been compliance with any restrictions associated with the grant.

# Kopanong Local Municipality

Financial Statements for the year ended 30 June 2013

## Accounting Policies

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### 1.10 Revenue from non-exchange transactions (continued)

If goods in-kind are received without conditions attached, revenue is recognised immediately. If conditions are attached, a liability is recognised, which is reduced and revenue recognised as the conditions are satisfied.

### 1.11 Investment income

Investment income is recognised on a time-proportion basis using the effective interest method.

### 1.12 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

### 1.13 Unauthorised expenditure

Unauthorised expenditure means:

- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

### 1.14 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

### 1.15 Irregular expenditure

Irregular expenditure as defined in section 1 of the PFMA is expenditure other than unauthorised expenditure, incurred in contravention of or that is not in accordance with a requirement of any applicable legislation, including -

- (a) this Act; or
- (b) the State Tender Board Act, 1968 (Act No. 86 of 1968), or any regulations made in terms of the Act; or
- (c) any provincial legislation providing for procurement procedures in that provincial government.

National Treasury practice note no. 4 of 2008/2009 which was issued in terms of sections 76(1) to 76(4) of the PFMA requires the following (effective from 1 April 2008):

Irregular expenditure that was incurred and identified during the current financial and which was condoned before year end and/or before finalisation of the financial statements must also be recorded appropriately in the irregular expenditure register. In such an instance, no further action is also required with the exception of updating the note to the financial statements.

Irregular expenditure that was incurred and identified during the current financial year and for which condonement is being awaited at year end must be recorded in the irregular expenditure register. No further action is required with the exception of updating the note to the financial statements.

Where irregular expenditure was incurred in the previous financial year and is only condoned in the following financial year, the register and the disclosure note to the financial statements must be updated with the amount condoned.

# Kopanong Local Municipality

Financial Statements for the year ended 30 June 2013

## Accounting Policies

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### 1.15 Irregular expenditure (continued)

Irregular expenditure that was incurred and identified during the current financial year and which was not condoned by the National Treasury or the relevant authority must be recorded appropriately in the irregular expenditure register. If liability for the irregular expenditure can be attributed to a person, a debt account must be created if such a person is liable in law. Immediate steps must thereafter be taken to recover the amount from the person concerned. If recovery is not possible, the accounting officer or accounting authority may write off the amount as debt impairment and disclose such in the relevant note to the financial statements. The irregular expenditure register must also be updated accordingly. If the irregular expenditure has not been condoned and no person is liable in law, the expenditure related thereto must remain against the relevant programme/expenditure item, be disclosed as such in the note to the financial statements and updated accordingly in the irregular expenditure register.

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

### 1.16 Use of estimates

The preparation of financial statements in conformity with Standards of GRAP requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the municipality's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in the relevant sections of the financial statements. Although these estimates are based on management's best knowledge of current events and actions they may undertake in the future, actual results ultimately may differ from those estimates.

# Kopanong Local Municipality

Financial Statements for the year ended 30 June 2013

## Accounting Policies

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### 1.17 Offsetting

Assets, liabilities, revenue and expenses have not been offset except when offsetting is required or permitted by a Standard.

### 1.18 Conditional grants and receipts

Revenue received from conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met a liability is recognised.

### 1.19 Tax

#### Current tax assets and liabilities

Current tax for current and prior periods is, to the extent unpaid, recognised as a liability. If the amount already paid in respect of current and prior periods exceeds the amount due for those periods, the excess is recognised as an asset.

Current tax liabilities (assets) for the current and prior periods are measured at the amount expected to be paid to (recovered from) the tax authorities, using the tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

### 1.20 Impairment of cash-generating assets

Cash-generating assets are those assets held by the municipality with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets held with the primary objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable amount of an asset or a cash-generating unit is the higher its fair value less costs to sell and its value in use.

Useful life is either:

- (a) the period of time over which an asset is expected to be used by the municipality; or
- (b) the number of production or similar units expected to be obtained from the asset by the municipality.

Criteria developed by the municipality to distinguish cash-generating assets from non-cash-generating assets are as follow:

### 1.21 Share capital / contributed capital

An equity instrument is any contract that evidences a residual interest in the assets of an municipality after deducting all of its liabilities.

### 1.22 Turnover

Turnover comprises of sales to customers and service rendered to customers. Turnover is stated at the invoice amount and is exclusive of value added taxation.

# Kopanong Local Municipality

Financial Statements for the year ended 30 June 2013

## Accounting Policies

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### 1.23 Borrowing costs

### 1.24 Presentation of currency

These financial statements are presented in South African Rand.

### 1.25 Investments

Where the carrying amount of an investment is greater than the estimated recoverable amount, it is written down immediately to its recoverable amount and an impairment loss is charged to the statement of financial performance.

### 1.26 Budget information

Municipality are typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which is given effect through authorising legislation, appropriation or similar.

General purpose financial reporting by municipality shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The approved budget is prepared on a cash basis and presented by economic classification linked to performance outcome objectives.

The approved budget covers the fiscal period from 2012-07-01 to 2013-06-30.

The budget for the economic entity includes all the entities approved budgets under its control.

The financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the Statement of comparison of budget and actual amounts.



# Kopanong Local Municipality

Financial Statements for the year ended 30 June 2013

## Notes to the Financial Statements

Figures in Rand	2013	2012
<b>2. Inventories</b>		
Game	7 300	7 000
Stationery	116 100	138 596
Water	236 668	43 270
	<b>360 068</b>	<b>188 866</b>
<b>3. Trade receivables from exchange transactions</b>		
<b>Gross balances</b>		
Electricity	4 646 792	368 177
Housing rental	3 631 443	3 434 170
Rates	15 062 196	14 797 103
Refuse	21 811 951	17 912 832
Sewerage	29 736 221	24 400 828
Water	21 481 228	17 738 148
Sundry debtors	2 549 204	2 660 277
	<b>98 919 035</b>	<b>81 311 535</b>
<b>Less: Allowance for impairment</b>		
Rates	(12 033 262)	(10 942 612)
Water	(20 146 558)	(17 128 608)
Sewerage	(29 421 674)	(23 877 689)
Refuse	(21 594 093)	(17 571 876)
Housing rental	(2 994 126)	(3 373 698)
Sundry Debtors	7 210 315	(1 317 069)
	<b>(78 979 398)</b>	<b>(74 211 552)</b>
<b>Net balance</b>		
Electricity	4 646 792	368 177
Housing rental	637 317	60 472
Sundry Debtors	9 759 519	1 343 208
Rates	3 028 934	3 854 491
Refuse	217 858	340 956
Sewerage	314 547	523 139
Water	1 334 670	609 540
	<b>19 939 637</b>	<b>7 099 983</b>
<b>Included in above is receivables from non-exchange transactions (taxes and transfers)</b>		
Rates	15 062 196	14 797 103
Other (specify)	(12 033 262)	(10 942 612)
	<b>3 028 934</b>	<b>3 854 491</b>
<b>Net balance</b>	<b>3 028 934</b>	<b>3 854 491</b>
<b>Electricity</b>		
Ageing not available	4 646 792	368 177

# Kopanong Local Municipality

Financial Statements for the year ended 30 June 2013

## Notes to the Financial Statements

Figures in Rand	2013	2012
<b>3. Trade receivables from exchange transactions (continued)</b>		
<b>Housing rental</b>		
Current -60 days)	663 887	234 317
31 - 60 days	47 031	-
61 - 90 days	46 747	105 676
91 - 120 days	42 560	91 153
120 + days	2 831 218	3 003 024
less: Provision for impairment	(2 994 126)	(3 373 698)
	<b>637 317</b>	<b>60 472</b>
<b>Refuse</b>		
Current (0 -30 days)	696 474	1 222 211
31 - 60 days	560 880	-
61 - 90 days	523 848	551 211
91 - 120 days	507 438	475 458
120 + days	19 523 311	15 663 952
less: Provision for impairment	(21 594 093)	(17 571 876)
	<b>217 858</b>	<b>340 956</b>
<b>Sewerage</b>		
Current (0 -30 days)	946 685	1 664 893
31 - 60 days	772 980	-
61 - 90 days	720 426	750 859
91 - 120 days	700 674	647 668
120 + days	26 595 456	21 337 408
less: Provision for impairment	(29 421 674)	(23 877 689)
	<b>314 547</b>	<b>523 139</b>
<b>Water</b>		
Current (0 -30 days)	2 104 404	1 210 292
31 - 60 days	877 536	-
61 - 90 days	630 726	545 836
91 - 120 days	650 222	470 822
120 + days	17 218 340	15 511 198
less: Provision for impairment	(20 146 558)	(17 128 608)
	<b>1 334 670</b>	<b>609 540</b>
<b>Reconciliation of allowance for impairment</b>		
Balance at beginning of the year	(74 211 552)	(51 154 642)
Contributions to allowance	(12 804 658)	(23 056 910)
Debt impairment written off against allowance	8 036 812	-
	<b>(78 979 398)</b>	<b>(74 211 552)</b>
<b>Fair value determination</b>		
Normal credit terms of the municipality include a 30 days interest free period. Hence debtors have been fair valued by discounting the balance owing for less than 30 days using a prime interest rate of 9%.		
<b>Rates</b>		
Unallocated receipts on service charges at 30 June 2011	1 016 878	1 009 621
31 - 60 days	398 964	455 334
61 - 90 days	374 624	392 758
91 - 120 days	13 271 730	12 939 389
Less: Provision for bad debt impairment	(12 033 262)	(10 942 611)
	<b>3 028 934</b>	<b>3 854 491</b>

# Kopanong Local Municipality

Financial Statements for the year ended 30 June 2013

## Notes to the Financial Statements

Figures in Rand	2013	2012
<b>3. Trade receivables from exchange transactions (continued)</b>		
<b>Sundry Debtors</b>		
Ageing not available	9 759 519	1 343 208

In principle it was decided that, if a debtor has any debt older than 120 days, the debtor will probably not pay and the full debtor should be provided. However, there may be cases where the debtor is paying the current debt, but does not have old debt. In principle it was then decided that the debtor will most probably not pay the old debt. Therefore, if a debtor has no outstanding amounts in the the 60, 90, 120 or 150 day categories, the balance in 180 days is provided.

# Kopanong Local Municipality

Financial Statements for the year ended 30 June 2013

## Notes to the Financial Statements

Figures in Rand	2013	2012
<b>4. Other receivables from exchange transactions</b>		
Other Receivables	64 384	6 241 638
Leave debtors	166 285	166 953
	<b>230 669</b>	<b>6 408 591</b>

### Fair value determination

Normal credit terms of the municipality include a 30 days interest free period. Hence debtors have been fair valued by discounting the balance owing for less than 30 days using a prime interest rate of 9%.

### Receivables impaired

Receivables were impaired in accordance to the likelihood of non-recoverability, which in turn was based on the days outstanding. This was done practically by implementing a risk matrix which assigns different risk levels to debtors on the basis of their oldest debt. Each level of risk was then impaired partially accordingly.

## 5. Receivables from non-exchange transactions

Government grants and subsidies	21 408 304	22 136 304
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### Fair value determination

Normal credit terms of the municipality include a 30 days interest free period. Hence debtors have been fair valued by discounting the balance owing for less than 30 days using a prime interest rate of 9%.

### Receivables impaired

Receivables were impaired in accordance to the likelihood of non-recoverability, which in turn was based on the days outstanding. This was done practically by implementing a risk matrix which assigns different risk levels to debtors on the basis of their oldest debt. Each level of risk was then impaired partially accordingly.

# Kopanong Local Municipality

Financial Statements for the year ended 30 June 2013

## Notes to the Financial Statements

Figures in Rand	2013	2012
<b>6. Cash and cash equivalents</b>		
Cash and cash equivalents consist of:		
Petty cash on hand	30 084	22 084
Bank balances	722 290	331 408
Short-term deposits	301 102	2 972 136
Bank overdraft	-	(5 884 094)
	<b>1 053 476</b>	<b>(2 558 466)</b>
Current assets	1 053 476	3 325 628
Current liabilities	-	(5 884 094)
	<b>1 053 476</b>	<b>(2 558 466)</b>

### The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2013	30 June 2012	30 June 2011	30 June 2013	30 June 2012	30 June 2011
FNB - Business cheque account - 6202 195 027 6	568 680	(5 884 094)	(8 609 184)	568 680	(5 890 357)	(10 272 547)
Standard Bank - Business cheque account - 04 191 730 8	47 115	60 238	44 601	47 115	60 238	44 601
ABSA - Business cheque account - 246 014 2140	61 150	74 038	61 686	61 150	74 038	61 687
Post - Bank Current account- 00088133677	45 345	197 132	-	45 345	197 132	-
<b>Total</b>	<b>722 290</b>	<b>(5 552 686)</b>	<b>(8 502 897)</b>	<b>722 290</b>	<b>(5 558 949)</b>	<b>(10 166 259)</b>

### 7. Property, plant and equipment

	2013			2012		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Buildings	472 895 295	(110 495 077)	362 400 218	470 218 762	(88 390 298)	381 828 464
Infrastructure	1 551 232 978	(666 686 636)	884 546 342	1 519 456 687	(614 515 279)	904 941 408
Other property, plant and equipment	11 005 686	(3 339 122)	7 666 564	10 307 159	(2 041 226)	8 265 933
<b>Total</b>	<b>2 035 133 959</b>	<b>(780 520 835)</b>	<b>1 254 613 124</b>	<b>1 999 982 608</b>	<b>(704 946 803)</b>	<b>1 295 035 805</b>

### Reconciliation of property, plant and equipment - 2013

	Opening balance	Additions	Disposals	Other changes, movements	Depreciation	Total
Buildings	381 828 464	2 676 533	-	-	(22 104 779)	362 400 218
Infrastructure	904 941 408	31 775 703	-	-	(52 170 769)	884 546 342
Other property, plant and equipment	8 265 933	1 223 315	(524 788)	107 129	(1 405 025)	7 666 564
	<b>1 295 035 805</b>	<b>35 675 551</b>	<b>(524 788)</b>	<b>107 129</b>	<b>(75 680 573)</b>	<b>1 254 613 124</b>

### Reconciliation of property, plant and equipment - 2012

# Kopanong Local Municipality

Financial Statements for the year ended 30 June 2013

## Notes to the Financial Statements

Figures in Rand	2013	2012
-----------------	------	------

### 7. Property, plant and equipment (continued)

	Opening balance	Additions	Depreciation	Total
Buildings	394 819 937	-	(12 991 473)	381 828 464
Infrastructure	917 140 718	37 007 908	(49 207 218)	904 941 408
Other property, plant and equipment	8 935 198	402 307	(1 071 572)	8 265 933
	<b>1 320 895 853</b>	<b>37 410 215</b>	<b>(63 270 263)</b>	<b>1 295 035 805</b>

### 8. Consumer deposits

Rates, water and refuse	2 139 502	1 359 627
Housing rental	330	-
	<b>2 139 832</b>	<b>1 359 627</b>

### 9. Provisions

#### Reconciliation of provisions - 2013

	Opening Balance	Additions	Reversed during the year	Total
Provision for Landfill Site rehabilitation	23 820 426	-	(3 697 760)	20 122 666
Provision for leave	4 006 000	943 000	-	4 949 000
	<b>27 826 426</b>	<b>943 000</b>	<b>(3 697 760)</b>	<b>25 071 666</b>

# Kopanong Local Municipality

Financial Statements for the year ended 30 June 2013

## Notes to the Financial Statements

Figures in Rand	2013	2012
-----------------	------	------

### 9. Provisions (continued)

#### Reconciliation of provisions - 2012

	Opening Balance	Additions	Total
Provision for Landfill sites	23 820 426	-	23 820 426
Long Service Bonus	732 849	3 273 151	4 006 000
	<b>24 553 275</b>	<b>3 273 151</b>	<b>27 826 426</b>

The rehabilitation requirements as per the Minimum Requirements for Waste Disposal by Landfill (DWAF, 1998), creates an obligation for the Municipality for future expenditure which is provided for.

### 10. Trade and other payables

Accrued audit fees	(3)	(1)
Trade payables	90 692 108	70 678 911
Bethulie housing projects	14 665	14 665
Centlec	(3 681 276)	6 516 124
Unallocated Deposits	1 445 236	1 841 913
Annual bonus provision	2 117 480	1 753 052
Leave provision	(208 792)	1
Leave accrual	5 754 043	2 341 602
Debtors payments in advance	7 465 097	6 286 624
	<b>103 598 558</b>	<b>89 432 891</b>

# Kopanong Local Municipality

Financial Statements for the year ended 30 June 2013

## Notes to the Financial Statements

Figures in Rand	2013	2012
<b>11. Other financial liabilities</b>		
<b>At amortised cost</b>		
Mangaung 2	20 035	40 069
Terms and conditions		
Mangaung 3	93 195	100 961
Terms and conditions		
Mangaung 4	64 478	96 716
Terms and conditions		
Mangaung 5	446 886	491 575
Terms and conditions		
Mangaung 6	168 343	183 647
Terms and conditions		
Mangaung 7	199 104	217 205
Terms and conditions		
Mangaung 8	348 539	386 627
Terms and conditions		
Managaung 9	264 179	288 195
Terms and conditions		
Managaung 10	-	13 227
Terms and conditions		
Mangaung 11	-	13 227
Terms and conditions		
Mangaung 12	468 826	500 791
Terms and conditions		
	<b>2 073 585</b>	<b>2 332 240</b>
<b>Total other financial liabilities</b>	<b>2 073 585</b>	<b>2 332 240</b>
<b>Non-current liabilities</b>		
At amortised cost	1 841 384	2 073 585
<b>Current liabilities</b>		
At amortised cost	232 201	258 655
<b>12. Finance lease obligation</b>		
<b>Minimum lease payments due</b>		
- within one year	-	526 322
	-	526 322
less: future finance charges	-	(128 853)
<b>Present value of minimum lease payments</b>	-	<b>397 469</b>
<b>Present value of minimum lease payments due</b>		
- within one year	-	397 470

The municipality's obligations under finance leases are finished.



# Kopanong Local Municipality

Financial Statements for the year ended 30 June 2013

## Notes to the Financial Statements

Figures in Rand	2013	2012
-----------------	------	------

### 13. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

#### Unspent conditional grants and receipts

Municipal Infrastructure grant	(467 035)	213 414
Municipal Systems Improvement Grant	-	790 000
Library Grant	-	27 894
Arts and craft grant (Dept of Sports and Culture)	500 000	500 000
Survey of erven grant (COGTA)	-	78 082
Sport facilities grant (National Lottery)	301 981	301 981
Communage grant (DBSA)	26 171	26 171
	<b>361 117</b>	<b>1 937 542</b>

### 14. VAT payable

VAT payables	1 321 773	3 218 359
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### 15. Revenue

Sale of goods	1 888 403	237 947
Rendering of services	-	2 339 222
Service charges	68 141 248	63 068 661
Rental of facilities and equipment	283 243	744 794
Rental income	895 762	321 901
Other income 1	454 221	108 861
Interest received - investment	6 512 616	5 645 227
Property rates	9 856 534	7 538 797
Government grants & subsidies	141 352 775	111 411 693
Fines	244 676	87 610
	<b>229 629 478</b>	<b>191 504 713</b>

The amount included in revenue arising from exchanges of goods or services are as follows:

Sale of goods	1 888 403	237 947
Service charges	68 141 248	63 068 661
Rendering of services	-	2 339 222
Other revenue	283 243	744 794
Rental income	895 762	321 901
Other income 1	454 221	108 861
Interest received - investment	6 512 616	5 645 227
	<b>78 175 493</b>	<b>72 466 613</b>

The amount included in revenue arising from non-exchange transactions is as follows:

#### Taxation revenue

Property rates	9 856 534	7 538 797
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#### Transfer revenue

Government grants & subsidies	141 352 775	111 411 693
Fines	244 676	87 610
	<b>151 453 985</b>	<b>119 038 100</b>

# Kopanong Local Municipality

Financial Statements for the year ended 30 June 2013

## Notes to the Financial Statements

Figures in Rand	2013	2012
<b>16. Investment revenue</b>		
<b>Interest revenue</b>		
Bank	589 238	454 281
Interest charged on trade and other receivables	5 923 378	5 190 946
	<b>6 512 616</b>	<b>5 645 227</b>
<b>17. Finance costs</b>		
Bank	135 313	195 234
Long-term loans	-	259 090
Other interest paid	5 066 541	6 166 626
	<b>5 201 854</b>	<b>6 620 950</b>

# Kopanong Local Municipality

Financial Statements for the year ended 30 June 2013

## Notes to the Financial Statements

Figures in Rand	2013	2012
-----------------	------	------

### 18. Prior period errors

The following errors occurred in relation to the prior financial year which necessitated correction in the current financial year. The errors were corrected retrospectively in terms of GRAP 3: Accounting Policies, Changes in Accounting Estimates and Errors.

#### 1. Consumer debtors

Property rates impairment was restated based on an assessment per customer in accordance with GRAP 104, IAS 32, IAS 39 and IFRS 7. This impacted consumer debtors balance.

#### 2. Property plant and equipment, Investment property and heritage assets

The municipality implemented a new asset register during the year under audit. This resulted in changes in valuation and classification of all assets.

#### 3. Retirement benefit obligation and long service bonus

The municipality appointed actuaries to re-assess the retirement benefit obligation in accordance with GRAP 25 and long service bonus provision in accordance with GRAP 19. This resulted in changes in values of the obligation and the provision.

### Statement of financial position

Property, plant and equipment	-	595 654 804
Investment Property	-	9 491 880
Other receivables from non-exchange transactions	-	274 494
Other receivables from exchange transactions	-	49 801
Heritage assets	-	3 447 120
Accumulate surplus	-	585 229 034
Long term debtors	-	668
Trade and other payables	-	1 825 916
Retirement benefit obligations	-	1 241 543
Provisions	-	4 006 000

### Statement of Financial Performance

Operating surplus	-	99 040 905
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### 19. Cash generated from operations

Deficit	(45 997 595)	(113 028 047)
<b>Adjustments for:</b>		
Depreciation and amortisation	75 939 230	63 119 548
Fair value adjustments	(3 697 760)	1 223 416
Debt impairment	13 313 175	72 909 088
Movements in retirement benefit assets and liabilities	3 290 000	(1 241 543)
Movements in provisions	(2 754 760)	3 248 064
Prior year errors	3 574 026	8 799 173
Other non-cash items	-	3 320 845
<b>Changes in working capital:</b>		
Inventories	(171 202)	-
Other receivables from exchange transactions	6 177 922	-
Other receivables from non-exchange transactions	728 000	-
Consumer debtors	(26 152 829)	-
Trade and other payables	14 165 669	-
VAT	(1 896 586)	-
Unspent conditional grants and receipts	(1 576 425)	-
Consumer deposits	780 205	-
	<b>35 721 070</b>	<b>38 350 544</b>

# Kopanong Local Municipality

Financial Statements for the year ended 30 June 2013

## Notes to the Financial Statements

Figures in Rand	2013	2012
<b>20. Government grants and subsidies</b>		
Equitable share	90 449 579	81 637 000
Conditional grants	50 903 196	29 774 693
	<b>141 352 775</b>	<b>111 411 693</b>

### Conditional and Unconditional

Included in above are the following grants and subsidies received:

#### Arts and craft grant (Dept. of Sports and Culture)

Balance unspent at beginning of year	500 000	500 000
Conditions still to be met - remain liabilities (see note 13)		

#### Communage Grant (DBSA)

Balance unspent at beginning of year	26 171	26 171
Conditions still to be met - remain liabilities (see note 13)		

#### Equitable Share

In terms of the Constitution of the Republic of South Africa, No. 108 of 1996, this grant is used to subsidise the provision of basic services to indigent community members and to subsidise income. No significant decrease is expected in the level of this grant.

#### Financial management grant

Current-year receipts	1 500 000	1 450 000
Conditions met - transferred to revenue	(1 500 000)	(1 450 000)
	-	-

#### Library grant

Balance unspent at beginning of year	27 894	-
Current-year receipts	115 000	100 000
Conditions met - transferred to revenue	(142 894)	(72 106)
	-	<b>27 894</b>

#### Municipal infrastructure grant

Balance unspent at beginning of year	71 694	166 219
Current-year receipts	23 521 000	19 390 000
Conditions met - transferred to revenue	(24 059 727)	(19 484 525)
	<b>(467 033)</b>	<b>71 694</b>

Conditions still to be met - remain liabilities (see note 13)

#### Sport facilities grant (National Lottery)

# Kopanong Local Municipality

Financial Statements for the year ended 30 June 2013

## Notes to the Financial Statements

Figures in Rand	2013	2012
<b>20. Levies (continued)</b>		
Balance unspent at beginning of year	301 981	301 981
Conditions still to be met - remain liabilities (see note 13)		
<b>Survey of erven (COGTA)</b>		
Balance unspent at beginning of year	78 082	78 082
Conditions met - transferred to revenue	(78 082)	-
	<b>-</b>	<b>78 082</b>
Conditions still to be met - remain liabilities (see note 13)		
<b>Municipal Systems Improvement Grant</b>		
Balance unspent at beginning of year	790 000	790 000
Current-year receipts	800 000	-
Conditions met - transferred to revenue	(1 590 000)	-
	<b>-</b>	<b>790 000</b>
Conditions still to be met - remain liabilities (see note 13)		
<b>21. Property rates</b>		
<b>Rates received</b>		
Residential	9 856 534	7 538 797
<b>Valuations</b>		
Church	20 624 000	20 624 000
Commercial	102 462 884	102 462 884
Empty site, no tariff and municipal property	204 831 354	204 831 354
Hospital	409 000	409 000
Residential	628 780 901	628 780 901
School	50 830 000	50 830 000
Small holdings and farms	2 482 316 000	2 482 316 000
Less: Income forgone	154 458 672	154 458 672
	<b>3 644 712 811</b>	<b>3 644 712 811</b>
Valuations on land and buildings are performed every 4 years. The last general valuation came into effect on 1 July 2009. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.		
<b>22. Service charges</b>		
Refuse removal	6 919 280	6 335 715
Sale of electricity	43 297 504	39 976 503
Sale of water	8 428 566	7 977 718
Sewerage and sanitation charges	9 495 898	8 778 725
	<b>68 141 248</b>	<b>63 068 661</b>

# Kopanong Local Municipality

Financial Statements for the year ended 30 June 2013

## Notes to the Financial Statements

Figures in Rand	2013	2012
<b>23. Bulk purchases</b>		
Electricity	35 204 945	32 542 771
Water	21 061 854	18 848 235
	<b>56 266 799</b>	<b>51 391 006</b>
<b>24. Debt impairment</b>		
Contributions to debt impairment provision	13 313 175	72 909 088

# Kopanong Local Municipality

Financial Statements for the year ended 30 June 2013

## Notes to the Financial Statements

Figures in Rand	2013	2012
<b>25. Employee related costs</b>		
Basic	49 289 719	46 763 460
Bonus	4 251 262	3 465 044
Bonus provision	364 429	789 214
Car allowance	3 181 312	3 458 662
Housing benefits and allowances	110 531	105 136
Leave pay provision charge	3 911 415	(342 514)
Long-service awards	1 008 507	417 000
Long-term benefits - incentive scheme	-	788 297
Medical aid	5 906 927	5 314 658
Other allowances	387 670	339 859
Overtime payments	1 831 087	1 396 236
Pension fund contributions	8 772 443	7 019 165
Leave provision	33 338	23 157
SDL	570 745	540 069
Telephone allowance	964 493	449 692
UIF	464 010	417 687
	<b>81 047 888</b>	<b>70 944 822</b>

### Remuneration of Municipal Manager

Basic	592 477	515 552
Bonus	-	69 013
Leave pay	8 364	108 793
Travel allowance	269 242	273 381
Cellphone allowance	600	3 600
Back pay	7 521	7 495
Contributions to UIF, Medical and Provident Fund	25 322	20 459
	<b>903 526</b>	<b>998 293</b>

### Remuneration of Chief Finance Officer

Basic	556 249	400 627
Bonus	45 705	6 941
Back pay	-	4 350
Travel allowance	36 000	40 667
Leave payment	-	59 966
Contributions to UIF, Medical and Provident Fund	153 375	6 562
	<b>791 329</b>	<b>519 113</b>

### Remuneration of Head Technical Services

Basic	375 000	399 857
Bonus	-	30 989
Salary correction	-	46 353
Back pay	-	9 165
Travel allowance	218 750	192 470
Contributions to UIF, Medical and Provident Fund	1 487	31 802
	<b>595 237</b>	<b>710 636</b>

# Kopanong Local Municipality

Financial Statements for the year ended 30 June 2013

## Notes to the Financial Statements

Figures in Rand	2013	2012
<b>25. Employee related costs (continued)</b>		
<b>Remuneration of Head Corporate Services</b>		
Basic	473 479	399 857
Bonus	-	30 989
Salary correction	-	61 378
Back pay	-	5 813
Travel allowance	87 438	209 647
Leave payment	-	61 661
Contributions to UIF, Medical and Provident Fund	97 919	18 078
	<b>658 836</b>	<b>787 423</b>
<b>Remuneration of Head Community Services</b>		
Basic	-	400 607
Bonus	-	30 989
Salary correction	-	57 943
Back pay	-	5 813
Car allowance	-	177 756
Housing allowance	-	9 786
Leave payment	-	55 171
Contributions to UIF, Medical and Provident Fund	-	31 802
	<b>-</b>	<b>769 867</b>
<b>26. General expenses</b>		
Advertising	198 007	457 862
Audit fees	4 005 828	3 809 374
Bank charges	397 400	311 476
Audit fees	54 718	48 742
Commission vendors	1 530 507	586 884
Legal fees and relating interest	349 494	761 870
Consumables	120	6 522
Entertainment	116 237	151 496
Insurance	504 356	662 188
Community development and training	428 866	-
Rental expenses	686 991	203 924
Fuel and oil	1 579 154	1 266 592
Postage and stamps	10 041	43 669
Legal fees and relating interest	425 152	442 994
License fees	100 478	204 474
License fees	83 389	81 663
Software licenses	98 874	195 957
Membership fees	458 850	356 436
Telephone and fax	1 709 430	1 819 090
Performance Management System	143 367	34 096
Training	68 234	636 383
Subsistence and travelling	1 546 325	1 073 232
Assets expensed	374 795	-
Departmental electricity	7 319 251	6 184 861
Sewerage and waste disposal	-	(49)
Water	4 726	29 162
Chemicals	944 556	2 453 017
Other expenses	10 939 308	8 590 242
	<b>34 078 454</b>	<b>30 412 157</b>



# Kopanong Local Municipality

Financial Statements for the year ended 30 June 2013

## Notes to the Financial Statements

Figures in Rand	2013	2012
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### 27. Remuneration of councillors

Mayor and Speaker	3 494 534	3 459 749
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#### In-kind benefits

The Mayor and Speaker are full time employees of the municipality. They are provided with an office and administration and support at the cost of the Council  
All remuneration made to councillors were within the upper limits of the framework set out in section 217 of the constitution.

### 28. Commitments

#### Authorised capital expenditure

##### Already contracted for but not provided for

• Property, plant and equipment	-	11 748 380
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##### Approved and contracted for

• Property, plant and equipment	56 709 310	-
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This committed expenditure relates to infrastructure and will be financed by available bank facilities, retained surpluses, loans and government grants.

### 29. Contingencies

33.1 Litigation is in progress against the municipality relating to disputes and arbitration with former employees who allege that the municipality unlawfully dismissed them. The municipality's lawyers and management consider the likelihood of the action against the municipality being successful as unlikely. However, it can not be determined at this time when the disputes will be resolved or exactly how much claims and damages the municipality will be required to make. The estimated legal costs amount to R640 000. The settlement amounting to R45 7084,57 is still to be settled by municipality.

33.2 The municipality is involved in a civil action regarding the claim for damages from the municipality by the plaintiff to the amount of R 1 430 948 plus interest. The estimated legal cost is R 200 000. The municipality's lawyers and management consider the likelihood of these actions against the municipality being successful as unlikely.

33.3 The municipality makes use of unregistered landfill sites, which could incur potential fines and penalties, the value and likelihood of which are estimated at R10 million Rands.

### 30. Related parties

Key Management and Councillors receive and pay for services on the same terms and conditions as other ratepayers / residents.

The rates, service charges and other charges are in accordance with approved tariffs that were advertised to the public. No bad debt expenses have been recognised in respect of amounts owed by related parties.

### 31. Risk management

#### Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash, the availability of funding through an adequate amount of committed credit facilities. Due to the dynamic nature of the underlying business, the treasury maintains flexibility in funding by maintaining availability under credit lines.

The entity's risk to liquidity is a result of the funds available to cover future commitments. The entity manages liquidity risk through an ongoing review of future commitments and credit facilities.

The table below analyses the entity's financial liabilities into relevant maturity groupings based on the remaining period at the financial year end to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

# Kopanong Local Municipality

Financial Statements for the year ended 30 June 2013

## Notes to the Financial Statements

Figures in Rand	2013	2012
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### 31. Risk management (continued)

2013	Less than 1 year	More than 1 year
Consumer deposits	1 456 432	1 204 684
Trade and other payables	101 701 550	89 432 891
Long-term liabilities	2 073 585	2 332 240
Finance lease obligation	-	397 470
Retirement Benefit Obligation	20 173 000	426 300
Unspent conditional grants	361 117	2 838 680
VAT payable	8 059 787	4 052 306
Bank overdraft	1 445 236	5 884 094
	<b>135 270 707</b>	<b>106 568 665</b>

#### Interest rate risk

As the municipality has significant interest-bearing liabilities, the entity's income and operating cash flows are substantially dependent on changes in market interest rates.

The municipality analyses its potential exposure to interest rate changes on a continuous basis. Different scenarios are simulated which include refinancing, renewal of current positions, alternative financing and hedging. Based on these scenarios, the entity calculates the impact that a change in interest rates will have on the surplus/deficit for the year. These scenarios are only simulated for liabilities which constitute the majority of interest bearing liabilities.

The municipality did not hedge against any interest rate risks during the current year.

The potential impact on the entity's surplus/deficit for the year due to changes in interest rates are minimal

#### Credit risk

Credit risk is the risk that a counter party to a financial or non-financial asset will fail to discharge an obligation and cause the municipality to incur a financial loss.

Credit risk consist mainly of cash deposits, cash equivalents, trade and other receivables and unpaid conditional grants and subsidies.

Trade and other debtors are disclosed net after provisions are made for impairment and bad debts. Trade debtors comprise of a large number of ratepayers, dispersed across different sectors and geographical areas. Ongoing credit evaluations are performed on the financial condition of these debtors. Credit risk pertaining to trade and other debtors is considered to be moderate due the diversified nature of debtors and immaterial nature of individual balances. In the case of consumer debtors the municipality effectively has the right to terminate services to customers but in practice this is difficult to apply. In the case of debtors whose accounts become in arrears, Council endeavours to collect such accounts by "levying of penalty charges", "demand for payment", "restriction of services" and, as a last resort, "handed over for collection", whichever procedure is applicable in terms of Council's Credit Control and Debt Collection Policy.

All rates and services are payable within 30 days from invoice date. Refer to notes 3 and 5 for all balances outstanding longer than 30 days. These balances represent all debtors at year end which defaulted on their credit terms.

#### Foreign exchange risk

The municipality does not engage in foreign currency transactions.

#### Price risk

The municipality is not exposed to price risk.

# Kopanong Local Municipality

Financial Statements for the year ended 30 June 2013

## Notes to the Financial Statements

Figures in Rand	2013	2012
-----------------	------	------

### 32. Going concern

The financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business atleast for the next twelve months.

### 33. Events after the reporting date

The municipality has no events after reporting date during the financial year ended 2012/2013.

### 34. Unauthorised expenditure

Opening balance	152 266 239	86 552 022
Budget overspending	4 294 581	65 714 217
	<b>94 085 820</b>	<b>152 266 239</b>

No criminal or disciplinary steps were taken as a consequence of above expenditure.

### 35. Fruitless and wasteful expenditure

Opening balance	23 180 836	19 852 445
Fruitless and wasteful expenditure - current year	4 103 646	3 328 391
SARS penalties and interest	-	-
	<b>27 284 482</b>	<b>23 180 836</b>

No criminal or disciplinary steps were taken as a consequence of above expenditure.

### 36. Irregular expenditure

Opening balance	137 770 607	78 010 322
Add: Irregular Expenditure - current year	20 468 667	59 760 285
	<b>158 239 274</b>	<b>137 770 607</b>

No criminal or disciplinary steps were taken on the above expenditure.

# Kopanong Local Municipality

Financial Statements for the year ended 30 June 2013

## Notes to the Financial Statements

Figures in Rand	2013	2012
-----------------	------	------

### 37. Additional disclosure in terms of Municipal Finance Management Act

#### Audit fees

Opening balance	3 759 611	821 017
Current year fee	4 679 582	3 759 611
Amount paid - current year	(1 002 648)	-
Amounts paid	(3 759 611)	(821 017)
	<b>3 676 934</b>	<b>3 759 611</b>

#### PAYE and UIF

Opening balance	5 547 757	3 232 701
Current year payroll deductions	6 528 013	6 822 872
Penalties and interest	609 436	845 460
Corrections made	780 847	25 250
Amounts paid	(7 939 673)	(850 000)
From VAT	-	(3 275 654)
	<b>5 526 380</b>	<b>6 800 629</b>

# Kopanong Local Municipality

Financial Statements for the year ended 30 June 2013

## Notes to the Financial Statements

Figures in Rand	2013	2012
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### 37. Leases (Effects of transitional provisions) (continued)

#### Pension and Medical Aid Deductions

Opening balance	14 893 339	9 603 798
Current year payroll deductions	12 720 761	15 524 239
Amounts paid	-	(9 573 112)
Amount paid - previous years	(11 788 896)	-
	<b>15 825 204</b>	<b>15 554 925</b>

#### VAT

VAT payable	1 321 773	3 218 359
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All VAT returns have been submitted by the due date throughout the year.

#### Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days at 30 June 2013:

30 June 2013	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Mr. T.X Matwa	224	-	224
MR SA Sola	652	14 484	15 136
	<b>876</b>	<b>14 484</b>	<b>15 360</b>

#### Distribution losses

	2013	2012
Distribution losses (Water		
Number of users -	12 192	12 054
Units bought -	5 347 557	5 303 013
Units sold -	1 484 738	1 364 468
Free basic service -	877 824	807 888
Units lost on distribution -	2 984 997	3 007 067
Amount of unit losses -	R 14 924 985	R 10 850 792
Units lost in distribution as percentage -	55,82%	57,90%

### 38. Deviation from supply chain management regulations

Paragraph 12(1)(d)(i) of Government gazette No. 27636 issued on 30 May 2005 states that a supply chain management policy must provide for the procurement of goods and services by way of a competitive bidding process.

Paragraph 36 of the same gazette states that the accounting officer may dispense with the official procurement process in certain circumstances, provided that he records the reasons for any deviations and reports them to the next meeting of the and includes a note to the financial statements.

### 39. Budget differences

#### Material differences between budget and actual amounts

# Kopanong Local Municipality

Financial Statements for the year ended 30 June 2013

## Notes to the Financial Statements

Figures in Rand	2013	2012
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### 1. Service charges

The municipality overbudgeted by 1 % on service charges. This is not significant.

### 2. Interest income

The interest was higher than budgeted due to non-payment of accounts by debtors. This can be evidenced by the long outstanding consumer debtor accounts.

### 3. Property rates

The actual property rates was less than budgeted due to the correction of incorrect tariffs charged on non-chargeable properties.

### 4. Government Grants and subsidies

The difference of R 56,8 m is because the budget figure only includes equitable share while the actual amounts includes the revenue recognised for conditional grants.

### 5. Personnel cost

The overspending is due to the high leave provision and bonus provision which were not budgeted for.

### 6. Administration cost

The Centlec fees were not adequately budgeted for which resulted in overspending of the related votes.

### 7. Depreciation

The depreciation was over the budget due to the implementation of the new asset register. The value of the property plant and equipment increased substantially.

### 8. Finance cost

Interest paid to major creditors due to late payments as a result of adverse cash flow position of the municipality caused interest to be more than budgeted

### 9. Debt impairment

The saving in debt impairment was because the municipality re-assessed its debtors balances based on IAS 39, GRAP 104, IAS 32 and IFRS 7.

### 10. Repairs and maintenance

The saving was because the actual spending was less than budgeted as a result of adverse cash flow position.

### 11. Bulk purchases

Water exceeded budget due to increased water usage and escalating costs of Bloemwater.

### 12. General expenses

The municipality exceeded its general expenditure budget due to the general increase in prices especially of petrol.

### Changes from the approved budget to the final budget

The changes between the approved and final budget are due to the municipality re-assessing its performance for the first half of the year as part of its mid-term budget assessment process. Council therefore resolved to adopt an adjustment budget for the remainder of the financial year.

# Kopanong Local Municipality

Financial Statements for the year ended 30 June 2013

## Notes to the Financial Statements

Figures in Rand	2013	2012
<b>40. Depreciation and amortisation</b>		
Property, plant and equipment	75 939 230	63 119 548

### 41. Employee benefit obligations

#### Defined benefit plan

The plan is a post employment medical benefit plan.

The post-employment health care liability is not a funded arrangement, i.e. no separate assets have been set aside to meet this liability.

#### Post retirement medical aid plan

##### General description

The Municipality offers employees and continuation members the opportunity of belonging to one of several medical aid schemes, most of which offer a range of options pertaining to levels of cover. Upon retirement, an employee may continue membership of the medical scheme. Upon a member's death-in-service or death-in-retirement, the surviving dependants may continue membership of the medical scheme.

##### Reconciliation of accrued liability

Notes:

- (i) These projections assume that the Municipality's health care arrangements and subsidy policy will remain as outlined in Section 3, and that all the actuarial assumptions made are borne out in practice. In addition, it is assumed that no contributions are made by the Municipality towards prefunding its liability via an off-balance sheet vehicle.
- (ii) Contributions or benefits paid refer to medical scheme contributions made by the Municipality with respect to its subsidy of current continuation members.
- (iii) There are no Past Service Costs, Curtailments or Settlements to reflect.

The Municipality's Accrued Unfunded Liability at 30 June 2013 is estimated at R 20 173 000. The Current-service Cost for the year ending 30 June 2013 is estimated at R 4 949 000.

# Kopanong Local Municipality

Financial Statements for the year ended 30 June 2013

## Notes to the Financial Statements

Figures in Rand

2013

2012

### 41. Employee benefit obligations (continued)

#### Financial Assumptions

	Value p.a.
Discount rate	7,89%
Health care cost inflation rate	7.14%
Net effective discount rate	0.70%

*Discount Rate:* IAS19 stipulates that the choice of this rate should be derived from high quality corporate bond yields. However, where the market in these bonds is not significant and as prescribed in GRAP25, the market yields on government bonds consistent with the estimated term of the post-employment liabilities should be used. Consequently, a discount rate of 7,89% per annum has been used. This rate was deduced from the yield curve obtained from the Bond Exchange of South Africa after the market close on 29 June 2013. This rate does not reflect any adjustment for taxation.

*Health Care Cost Inflation Rate:* This assumption is required to reflect estimated future changes in the cost of medical services, resulting from both inflation and specific changes in medical costs (for example, due to technological advances or changes in utilisation patterns). Any assumption regarding future medical scheme contribution increases is therefore subjective.

A health care cost inflation rate of 7.14% has been assumed. This is 1% in excess of expected CPI inflation over the expected term of the liability, namely 6.14%. A larger differential would be unsustainable, eventually forcing members to less expensive options. This implies a net discount rate of 0.70%.

The next contribution increase was assumed to occur with effect from 1 January 2014.

*Replacement ratio:* This is the expected pension as a percentage of final salary, at retirement. This assumption is required to determine the income band at retirement of members since some contribution rate tables are income-dependent. A replacement ratio of 65% was assumed. Income bands are assumed to increase with general salary inflation and therefore an explicit salary inflation assumption is not necessary.

#### Demographic Assumptions

Average retirement age	63																			
Continuation of membership at retirement	90%																			
Proportion assumed married at retirement	90%																			
Proportion of eligible current non-member employees joining the scheme by retirement	20%																			
Mortality during employment	SA 85-90																			
Mortality post-retirement	PA90-1 ultimate																			
Withdrawal from service (sample annual rates)	<table><tr><th>Age</th><th>Females</th><th>Males</th></tr><tr><td>20</td><td>24%</td><td>16%</td></tr><tr><td>30</td><td>18%</td><td>12%</td></tr><tr><td>40</td><td>6%</td><td>6%</td></tr><tr><td>50</td><td>2%</td><td>2%</td></tr><tr><td>&gt; 55</td><td>0%</td><td>0%</td></tr></table>	Age	Females	Males	20	24%	16%	30	18%	12%	40	6%	6%	50	2%	2%	> 55	0%	0%	
Age	Females	Males																		
20	24%	16%																		
30	18%	12%																		
40	6%	6%																		
50	2%	2%																		
> 55	0%	0%																		

Demographic assumptions are required to estimate the changing profile of current employees and retirees who are eligible for post-employment benefits.

*Pre-retirement Mortality:* SA85-90 ultimate table, adjusted for female lives.

*Post-retirement Mortality:* PA(90) ultimate table, adjusted down by one year of age.

*Withdrawal from Service:* If an in-service member leaves, the employer's liability in respect of that member ceases. It is therefore important not to overstate withdrawal rates. A sample of the assumed rates is set out below.

*Average Retirement Age:* The normal retirement age of employees is 65. It has been assumed that in-service members will retire at age 60, which then implicitly allows for expected rates of early and ill-health retirement.

*Continuation of Membership:* It has been assumed that 90% of in-service members will remain on the Municipality's health care arrangement should they stay until retirement. Further, it was assumed that 20% of eligible non-members would join a medical aid scheme by retirement, and thus qualify for the subsidy.



# Kopanong Local Municipality

Financial Statements for the year ended 30 June 2013

## Notes to the Financial Statements

Figures in Rand	2013	2012
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### 41. Employee benefit obligations (continued)

*Family Profile (retirees):* It has been assumed that 90% of those in-service members who remain on the health care arrangements will be married at retirement. Further, it has been assumed that in-service husbands will be four years older than their wives. For current retiree members, actual marital status was used and the potential for remarriage was ignored.

#### Other Assumptions

It was assumed that the Municipality's health care arrangements and subsidy policy would remain as outlined in Section 3. Furthermore, it was assumed that the level of benefits receivable, and the contributions payable in respect of such, would remain unchanged, with the exception of allowing for inflationary adjustments. Implicit in this approach is the assumption that current levels of cross-subsidy from in-service members to continuation members within the medical scheme are sustainable, and will continue.

Management has indicated that there are no long-term assets set aside off-balance sheet in respect of the Municipality's post-employment health care liability.

#### Sensitivity analysis

The liability at the Valuation Date was recalculated to show the effect of:

- (i) A 1% increase and decrease in the assumed rate of health care cost inflation;
- (ii) A one-year age reduction in the assumed rates of post-retirement mortality;
- (iii) A one-year decrease in the assumed average retirement age; and
- (iv) A 50% reduction in the assumed withdrawal rates

*Note: The post-retirement mortality adjustment assumes that someone aged 70 will experience the mortality of someone aged 69. The liability is expected to increase under this scenario because members are expected to live longer.*

The table above indicates, for example, that if medical inflation is 1% greater than the long-term assumption made, the liability will be 18% higher than that shown.

#### **The amounts recognised in the statement of financial position are as follows:**

##### **Carrying value**

Present value of the defined benefit obligation-wholly unfunded	(16 883 000)	(13 266 000)
Present value of the defined benefit obligation-partially or wholly funded	(814 000)	(535 000)
Net actuarial gains or losses not recognised	(1 879 000)	(2 645 000)
Interest costs	(1 134 000)	(1 134 000)
Benefits paid	537 000	697 000
	<b>(20 173 000)</b>	<b>(16 883 000)</b>

# Kopanong Local Municipality

## Appendix A

June 2013

### Schedule of external loans as at 30 June 2013

Interest rate	Redeemable	Balance at 30 June 2012	Received during the period	Redeemed written off during the period	Balance at 30 June 2013	Carrying Value of Property, Plant & Equip Rand	Other Costs in accordance with the MFMA Rand
		Rand	Rand	Rand	Rand		
Development Bank of South Africa		-	-	-	-	-	-
<b>Other loans</b>							
Mangaung 2	10% 2013	127 972	-	11 634	116 338	-	-
Mangaung 3	10% 2024	13 228	-	13 228	-	-	-
Mangaung 4	10% 2014	13 228	-	13 228	-	-	-
Mangaung 5	10% 2022	481 577	-	44 689	436 888	-	-
Mangaung 6	10% 2023	288 195	-	24 016	264 179	-	-
Mangaung 7	10% 2023	40 068	-	20 034	20 034	-	-
Mangaung 8	10% 2010	217 206	-	18 101	199 105	-	-
Mangaung 9	10% 2023	183 647	-	15 304	168 343	-	-
Mangaung 10	10% 2012	759 446	-	58 419	701 027	-	-
Mangaung 11	10% 2013	100 961	-	7 766	93 195	-	-
Mangaung 12	10% 2024	96 715	-	32 238	64 477	-	-
		<b>2 322 243</b>	<b>-</b>	<b>258 657</b>	<b>2 063 586</b>	<b>-</b>	<b>-</b>